Rodney's Take

June 17, 2024

Riding the Wave

In 2018, Tesla was on fire, and not in a good way. The company was burning cash, and there was no way it could sell enough Model S sedans to stay afloat. The quirky CEO, Elon Musk, had said the company would introduce an affordable sedan that would take the EV world by storm, but the model seemed perpetually to be on hold. Musk didn't flinch.

The CEO tied his compensation even closer to the stock, which would give him a fantastical payout if the company achieved crazy production numbers.

Well, Musk delivered, and he's demanding the Tesla Board of Directors pay up. His stock compensation during the 2018 pay package is valued around $45 billion. Remember, this is not Musk's net worth, this is "just" his compensation for meeting production targets. A judge was dubious that such an exorbitant payout was lawful, so Musk asked the shareholders to reaffirm the deal… and they did. Still, the judge in Delaware hasn't let the issue go. Musk might get the biggest payout in the history of the world. Or, he might not.

Does he deserve it? I don't know, but his projections in 2018 seemed outrageous. Now, people aren't laughing.

The serial entrepreneur makes a lot of claims that don't pan out, but he made electric cars viable, even if it took a lot of subsidy money to make it happen (through selling zero-emission credits to other car makers). He built a satellite Internet system and a space program. Although The Boring Company (which was meant to transform land-based travel through tunnels) is still in the garage, I have no doubt that Musk will dream of another moonshot that seems just as preposterous as satellite Internet, it likely will include AI… and Musk will get paid even more.

But here's where "trickle down" actually trickles down. From June 2018 to now, Tesla stock increased by 678%, whereas the Nasdaq increased by less than 200%. It's not as if $45 billion went out the door to the average investor who might have tagged along for the ride, but it's not chump change. Elon Musk is making everyday investors richer… at least as long as they stay with him (or with the index that includes his company) and he doesn't burn the company to the ground.

If you're not in the investing game, then you're missing out on the largest wealth machine of all time. Remember, the top 10% of Americans hold 93% of equities, the largest percentage in history, while the bottom 50% of Americans held just 1% of stocks in late 2023. In general, the rich get richer by purchasing stocks and holding them, not by becoming the next Elon Musk. This happens because they have a very powerful partner, the Federal Reserve.

You might think that the Fed hates inflation. That couldn't be further from the truth. The Fed hates *too much* inflation, which makes consumers miserable and makes it hard for the central bank to keep interest rates moderate. But inflation that is tolerable, that makes your home value and stocks rise while not making your eyes bleed at the grocery store, now, that's a good thing to central bankers. This type of inflation makes consumers a bit more likely to spend, which makes employers a bit more likely to increase wages, which makes consumers, who are also workers, happy. This is why the Fed in general wants to keep increasing the amount of money in the system that is chasing goods, services, and stocks.

With Elon Musk likely to get a $45 billion bonus and stocks at all-time highs, it might feel like a terrible time to get into the game. But didn't it feel like that when the S&P 500 first broke through 4,000… and then 5,000? I like to invest in dividend-paying stocks because I believe in cash flow. But I keep an allocation to equities. You never know when the next Elon Musk will arrive or, if the markets turn south, when the Fed will show up to save the day.

Rodney

Got a question or comment? You can contact us at info@hsdent.com